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UPDATE

## CASINO GAMING IN ATLANTIC CITY

May 28 marked the ninth anniversary of casino gaming in Atlantic City. In nine years, \$3.2 billion has been invested in 12 casino hotels with 6,853 rooms. That works out to \$462,500 per room, by any measurement a high price to pay for market entry. Has the investment paid off?

The answer to that question depends on whom you ask. The tax collectors certainly have smiles on their faces. Over \$1.8 billion has been paid to the city and state in direct taxes. 40,000 people are employed by the casinos in jobs paying above-average wages (\$21,470 average wages and fringes per employee in 1986). Certainly the bettors seem happy; they keep coming back time-after-time even though they lost \$12.8 billion in Atlantic City's casinos. Many people seem to enjoy the almost free bus rides, courtesy of the 12 casinos. Since Resorts International opened the city's first casino, over 70 million people have been bussed in from such nearby cities as Philadelphia, New York, Baltimore and Washington. From an investment perspective the \$3.2 billion investment to build 12 casinos has produced mixed results. In the past two years Atlantic City's casino industry netted about 2 cents, after taxes, of each dollar in revenues. Profit margins are running at less than half the level of corporate America. One casino is in bankruptcy (Atlantis) and for the first quarter ended March 31, 1987, five casinos lost money.

Last year Atlantic City's eleven casinos had combined profits of \$55.0 million, down substantially from \$168.7 million earned from nine casinos just three years ago. Yet, in the recent past Golden Nugget (GNG-\$10) sold its casino (the smallest in town) and surrounding land to Bally Manufacturing (BLY-\$19) for \$440 million. Donald Trump purchased Hilton's casino hotel for \$320 million. Mr. Trump has also announced he wants to purchase voting control and 11% of the equity in Resorts International for \$101 million. Resorts is currently building Atlantic City's 13th casino, which is expected to open in the summer of 1988. We think this huge, 3+ million sq. ft. property with 1,200 rooms and at least a 100,000 sq. ft. casino will wind up costing \$750+ million. Bally Manufacturing is presently investing another \$100 million for a tower addition to its first Atlantic City casino, Park Place. When that project is completed next year, the company will have over \$973 million invested in its two Atlantic City casinos. Ramada (RAM-\$8) is spending an additional \$200 million to expand and upgrade its Tropicana casino. When that is completed next year it will have a \$568 million investment. Pratt Hotel Corp (PRAT-\$3) announced it plans to sell and lease back its Sands Hotel and casino through a Master Limited Partnership in order to improve its balance sheet. It then plans to acquire or build a second Atlantic City casino.

Obviously, these anxious investors must be looking beyond today's bottom line numbers. Even in today's environment, well run casinos are huge generators of cash. For example, in 1986 Bally's Park Place reported net income of \$22.3 million. However, it generated a cash flow (income +



late the 12 locations with a staff of over 1,100 and a budget of \$58.1 million. Last year the twelve casinos generated record gaming revenues of \$2.5 billion, but total profits were only \$74.0 million. This is equivalent to less than three cents profit for each dollar of revenues and about two cents return for each dollar of invested capital. By way of contrast, in 1983 the city's nine casinos generated record earnings of \$168.7 million, equivalent to a profit margin of 9.5%. While a few operators have done well, a few others may be hanging on by their fingernails next year when we see real problems. Last year Golden Nugget (GNG-\$14) sold its Atlantic City Casino to focus its investment dollars in Las Vegas where regulation is both friendlier and more efficiently administered.

We see some tough times ahead for Atlantic City's casino operators over the next couple of years, maybe even a crisis or two. Perhaps a crisis can bring needed changes to streamline casino and regulatory operations. If not, we expect to see a speedup in the consolidation of the industry. Nevertheless, through Atlantic City's near-term gloom and Las Vegas' booming times we see a few timely investment opportunities.

#### Recap of Last Year

1987 was an excellent year for revenue growth in the casino gaming industry in the U.S. Last year the industry's combined total domestic win from Nevada and New Jersey (the only two states in which casino gaming is legal) was \$6.4 billion.

#### Total U.S. Gaming Win (\$Billions)

	<u>1988 Est.</u>	<u>1987</u>	<u>1986</u>
Atlantic City, NJ	\$2.710	\$2.498	\$2.281
State of Nevada	4.325	3.925	3.482
	<u>\$7.035</u>	<u>\$6.423</u>	<u>\$5.763</u>

This year we estimate the industry will generate a combined gaming win of \$7.0 billion, or a 9.5% improvement over the 1987 numbers. This compares to an 11.5% year-to-year improvement in 1987 results over 1986. About 39% of the action currently takes place in Atlantic City.

#### Atlantic City Gaming

In ten years Atlantic City has gone from zero to a \$2.5 billion gaming market. Over the last five years Atlantic City's gaming market has grown at a compounded annual rate of 10.8%.

#### ATLANTIC CITY'S CASINO WIN (\$Billions)

	<u>Win</u>	<u>% Growth</u>	
1982	\$1.493	35.8%	
1983	1.771	18.6	9 casinos
1984	1.952	10.2	9 casinos
1985	2.139	9.6	10 casinos
1986	2.281	6.6	11 casinos
1987	2.496	9.4	11 casinos
			12 casinos

Over the next several years we think the market will grow between 8% and 10% annually. However, as in the past, the pie will get cut into thinner slices.



## THE ATLANTIC CITY GAMING MARKET IS MATURING

### Gross Casino Revenue

(\$ Thousands)

Year	Number of Casinos	Revenues	% Increase	Cumulative
		\$ 134,073		\$ 134,073
1978	1	325,481	142.7%	459,554
1979	3	642,693	97.5%	1,102,247
1980	6	1,099,783	71.1%	2,202,030
1981	9	1,493,164	35.8%	3,695,194
1982	9	1,770,942	18.6%	5,466,136
1983	9	1,951,767	10.2%	7,417,903
1984	10	2,138,652	9.6%	9,556,555
1985	11	2,281,204	6.7%	11,837,759
1986	11	2,440,000	7.0%	14,277,759
1987 Est.	12	2,610,000	7.0%	16,887,759
1988 Est.	13			

Last year the industry's gaming revenues increased 6.7% over 1985 results. We believe that market growth over the next two years will average about 7%. In 1988 Resorts' Taj Mahal will open and that will add still more capacity (about 15% in casino area). This new casino is so large it will be like two new casinos opening, so we expect even thinner pie slices next year. What disturbs us most, however, is the aggressiveness being displayed by the marketing departments of most casinos in defense of market share. One of the first inducements to bring in more bettors was the adoption of tripple-odds craps (in place of double odds). Six casinos now offer these odds which can reduce substantially the amount of chips the casino keeps (hold percentage). Two of the casinos now deal blackjack from 4 deck shoes compared to eight card decks previously. This practice reduces the house's odds. Even more devastating to margins are the bus wars that are starting. Cash, deferred vouchers, and food and entertainment packages have gone as high as \$35.00 per passenger. Last year the casinos spent over \$218 million in coin giveaways to bus 13 million people into Atlantic City. It is estimated that the average bus patron loses between \$25.00 and \$35.00 in an Atlantic City casino. Last year most of the city's casinos made a concerted effort to bring down their operating costs. For example, complimentaries as a percentage of casino revenues declined from 24.2% to 22.7%, and payroll costs were only marginally higher.

Cost containment was a major factor in the overall improvement in this year's first quarter earnings. For the three months ending March 31, New Jersey's casino industry posted a profit of \$6.8 million compared to a loss of \$14 million for the same period a year ago. While the trend is encouraging, profit margins were only 1.1% on \$606 million in revenues. Since the opening of the Showboat on April 2, most casinos have again stepped up their bussing programs. In the first three months of this year bussing costs were up 15% over last year. However, this time around the giveaways are more generous than ever, and it looks as if most of the operators will maintain an aggressive bussing stance through the important summer season, probably reversing the recently improving earnings trend. Next year, it may get worse, because we expect a major shift in the gaming action after the \$750+ million Taj Mahal opens next summer. We believe the opening of Atlantic City's thirteenth casino will have the most impact on the competition of any new casino. This property features 12 restaurants and huge public areas that will have particular appeal to convention business. It will also connect with the newly rebuilt Steel Pier.



which will feature popular attractions for family entertainment. There will also be over 2,500 hotel rooms within a three block area of the new hotel. We think it will pull traffic away from the west end of the Boardwalk where the Golden Nugget and Tropicana are located. If we are correct, 1988 might be a tough year for a few operators as they try to defend market share. But those operators with staying power (adequate working capital) should enjoy much better times in the early nineties.

### INDUSTRY OUTLOOK

We view the next several years as a major transition period for Atlantic City and its casino industry. Currently, the city suffers from infrastructure problems, particularly a shortage of parking spaces and hotel rooms. Transportation into the city is basically by automobile and subsidized buses. The casinos continue to market to the same customer base, mostly within a day's drive of the city. There are not enough hotel rooms to spur the airlines to begin regular scheduled airline service into the city.

In the early 1990's we see the city dramatically changed. By 1992 the number of hotel rooms (casino and non-casino) should almost double to about 13,000+. Airline service will be greatly increased and there will be a firmly established rail link (Spring 1989) to major cities along the Boston/Washington corridor. By that time the city's one million sq. ft. convention center will be completed and able to accommodate a growing convention business. Also, the casinos should be able to cut back on the expensive bussing programs, as they begin to market their services to a host of new customers. We have a lot of confidence that there will be a major effort by the city and state governments to get many of the improvement projects off the drawing board. These pledges will be backed with funding. This marks a major change in direction, because over the last nine years almost all of the money invested in Atlantic City went into its twelve casino hotels.

### INVESTMENT OPINIONS

We single out three operators who, in our opinion, will benefit the most from our projected, rosy transition: Caesars, Resorts International and Trump.

Resorts International owns about 14% of all assessed property value in the city. Currently, private investor Donald Trump is seeking control of the company through a \$135 a share offer for Resorts' Class B stock. However, other more generous offers have recently surfaced, but only for the Class B stock. In our opinion, the issue will ultimately be resolved by the courts. If Mr. Trump's bid is successful, he will ultimately own Resorts Class B stock which represents a 93% voting interest in the company, but only 11% of the equity interest. We believe Mr. Trump's long-term goal is to own 100% of Resorts. Assetwise, Resorts Class A (\$57) looks cheap, but it may be a long time before Mr. Trump decides to take Resorts private. In the meantime, Resorts' earnings could plunge in 1988 if there are costly overruns and delays on its new casino. Over the long-term the Class A shareholders may do well, but the road to riches could be like riding a roller coaster. We have preferred to participate in Resorts through the Class B stock, but its shares have run up sharply to \$137, above Mr. Trump's bid. A private group known as New Jersey Trust Five Ltd. has made the highest bid to date, with an offer of \$210 a share for the Class B stock. More details on all the offers will probably come out in a mid-June hearing before a probate judge.

Trump's privately owned casinos captured about 20% of the Atlantic City



WHERE THE DEALS ARE

	Table Games: Total	Slot Machines: Total	1987 Slot Win % Hold (A)	Bus Package Phila.*	Bus Package New York*	1987 Bus Headcount	1987 Coin Incentives per Recipient	Hotel Rooms	1987 Average Room Rate
						614,700	\$9.19	500	\$64
TIS	109	1370	12.1%	\$25.00	\$25.00	1,216,500	18.09	510(B)	105
'S PARK PLACE	110	1668	13.6%	19.00	24.00	1,275,900	17.21	518	123
'S GRAND	93	1220	12.2%	20.00	27.50	1,591,500	13.89	645	105
RS	114	1565	12.7%	21.00	28.00	889,200	10.16	504	80
RS	81	1248	11.5%	23.00	30.00	568,600	12.51	750	91
DGE	126	1717	11.3%	15.00	22.50				
H'S MARINA						1,224,700	9.92	724	94
RTS	117	1667	12.6%	20.00	27.50	980,400	10.40	501	62
S	99	1416	11.7%	20.00	28.00	1,078,364	14.06	516	97
BOAT	114	1628	12.9%	23.00	30.00	1,313,700	12.29	507(E)	88
ICANA	117	1743	11.7%	20.00	27.50	1,171,300	11.66	606	94
P'S CASTLE	116	1601	12.0%	20.00	27.50	1,359,100	16.61	586	102
P PLAZA	115	1674	11.9%	22.50	30.00				
L.....	1,311	18,517	12.2%	\$20.70	\$27.29	13,283,964	\$12.83(C)	6,867	\$91

These figures include the total value of coins, food, deferred vouchers and entertainment coupons as advertised for a weekday bus trip in early May 1988.  
 The hold percentage represents what the house keeps.  
 In additional 800 rooms will come on stream in early 1989.  
 This figure represents the average cash payout per recipient based on \$218.4 million in total coin disbursements.  
 In additional 500 rooms will come on stream in late October 1988.

For the twelve months ending December 31, New Jersey's casino industry posted a profit of \$73.9 million compared to \$55.0 in the previous year. Cost containment was a major factor in the overall improvement in last year earnings. For example, complimentary as a percentage of total revenues declined from 22.7% to 21.5%. In 1986 it averaged 24.2%. Payroll costs as a percentage of revenues last year were 30.5% down from 31.1% the previous year. While the trend is encouraging, profit margins were still only 2.6% of total hotel and casino revenues of \$2.8 billion. Unfortunately, we think the coming shortage of personnel needed to staff the sizable increase in new gaming capacity and the scramble for new customers to fill it all are certain to result in reversing these improvements. Therefore we are projecting that 1990 may be a very tough year for the Atlantic City casino operators, and if the economy begins to slow, this can exacerbate further a difficult operating environment.

It would not surprise us if a casino or two changes hands during the next several years. However, just as the savvy Nevada operators have adjusted and prospered, we believe their eastern cousins will too. Atlantic City will experience its bankruptcies and its changes of ownership, which are the common maladies of any maturing industry. And we think the best managed, well financed operators will come out of the tough times even stronger.

In our table at the end of this report entitled Atlantic City Casino Statistics we have attempted to isolate each casino to show how it compares with its neighbors. To compare apples to apples, our numbers under the heading of Operating Profits are before income taxes, interest, depreciation and amortization and other charges. Our analysis of these statistics shows: Bally's Park Place, owned by Bally Manufacturing (BLY-\$15), as the big winner, with operating profit margins of 29.7%. Park Place is the best example of how efficiently a casino can be run. First, it has an outstanding location in the center of the Boardwalk and across the street from two feeder casinos - the Claridge and the Sands. Most important, it has firm control over its operating



expenses. Its complimentary policy is the lowest in town as a percentage of revenues. In terms of payroll and interest charges to revenues, Bally operates lean. Credit play is also low. Best of all, as you can see from our preceding chart - Where The Deals Are, Bally has the tightest slots (less paid out to the better means the house keeps more) and charges about the highest room rates in Atlantic City. From the investor's standpoint Bally's Park Place is a real money machine. Unfortunately, this first class property does not offer a great deal to the average better.

On the other hand, Harrah's Marina Casino Hotel, owned by Holiday Corp. (HIA-\$25), has the loosest slots in town. Bally's machines are programmed to hold 20.4% more than Harrah's slots. Harrah's not only offers the slot players the best odds but they also rate very high marks on the bottom line. Harrah's operating margins, at 28.5%, are very close to Bally's. A major factor behind Harrah's outstanding bottom line performance can be seen in the "Deal" table. Harrah's has the city's least aggressive bussing program and instead relies on a loyal drive-in customer who is happy with the casino's 11.3% slot hold. Across the road from Harrah's is Trump's Castle. Unfortunately, this property has not found the correct formula for success. Operating profits are 18.6% lower than its neighbor Harrah's. Last year the Castle bussed more than twice as many people to its casino as Harrah's, and this can be a very expensive way of generating business. The Castle also has the highest ratio of complimentaries to revenues among all casinos. From the standpoint of bottom line performance the Castle ranks low because of its heavy debt load. Its \$41.6 million in interest payments and \$23.3 million in depreciation and amortization charges last year were the city's highest.

Trump Plaza on the other hand is doing a superb job in building its business. Last summer it opened its new 2,500 car garage and this has made the Plaza a strong number two this year. At the high-end of the market the Plaza ranks just behind Caesars. In the last six months the Plaza has shown the most dramatic market share gains. Trump Plaza's supremacy in big ticket sporting events has provided invaluable name recognition while at the same time improving the image of the city. Trump Plaza has also aggressively courted and captured some of the high roller business that had patronized Golden Nugget, now Bally's Grand. Since Bally purchased the Nugget last year for \$440 million it has been losing market share. Operating profits are also lower but an explanation is in order. In our table on the last page we show that the Grand's 1986 operating profits were \$52.3 million. However, this figure includes a charge of \$15.2 million which represented a management fee charged by Golden Nugget to run the casino, as well as a \$20.4 million charge for early retirement of debt. Excluding these non-recurring charges the Grand's operating profits declined by \$12.5 million since it was acquired. When the Taj opens next year we are even more concerned for the Grand. That is because the Taj is at the far east end of the Boardwalk and the Grand is at the far west end. We think Taj will shift the action more to the center and east end of the Boardwalk.

A major beneficiary of the Taj is likely to be Showboat which will actually connect to the Taj. Our figures indicate that Showboat has not done well in its first year. Management has recently adopted a strategic shift in its operations. Its 60 lane bowling center was supposed to differentiate this property from the other casinos. In Showboat's Las Vegas Casino its bowling lanes are a major reason for its success. Showboat learned the hard way that the Atlantic City market is quite different from Nevada. So bowling is now being deemphasized



in its Atlantic City casino, and it would not surprise us if its bowling operation were closed to the public. In a major policy change Showboat will now go more aggressively after table game players. They will be spending more to do it. Expect to see some nice "deals" for Showboat customers.

As we said at the beginning of our report one of our favorite gaming companies is Caesars World, which also owns 86% of Caesars of New Jersey (CJN-\$18). Caesars has an outstanding Atlantic City Casino. It ranked number one in gaming win last year and came in just behind Harrah's in operating profits. Caesars has carved a strong niche in the high-end segment of the market, which is less vulnerable to economic downswings. We think Caesars New Jersey will improve its earnings per share 70% in fiscal 1988 (July 31) to an estimated \$1.90. With its shares selling under ten times this year's estimated earnings, we rate the stock a solid buy, and we review Caesars New Jersey in more detail in our recent special report-Casino Gaming Investment Recommendations.

At the other end of the profit spectrum are the Atlantis, owned by Elsinore Corp. (ELS-\$2), and the Claridge, managed and partially owned by Del E. Webb (WBB-\$11). The Atlantis just emerged from bankruptcy and has lost money for years. The Claridge has also racked up big losses. Both Elsinore and Webb have announced they "want out" of Atlantic City.

In summary, we think 1989-1990 may be a difficult period for a few Atlantic City casinos, but those with staying power (adequate working capital) should enjoy much better times in the early '90's. We continue to view the next several years as a major transition period for Atlantic City and its casino industry.

#### A Peek Into The Future

Let's hop into our time machine and shine up our crystal ball. It's now 1992 and we see Atlantic City dramatically changed. There are now 20,000 hotel rooms within a 15 minute ride of the Boardwalk. Last year the city's one million square foot convention center was completed and is accomodating a growing convention business. Looking back, the 1989-1990 casino crisis went a long way towards producing a more cooperative spirit among city and state leaders. Major projects are getting off the drawing board including a first class airport facility. The completion of the rail link in the Spring of 1989 to major cities along the Boston/Washington corridor has proven a success and is now bringing in 2 million passengers a year. The casinos love the railroad because it brings in many of their employees and reduces parking headaches.

After the 1989-1990 casino crisis, state lawmakers eagerly approved 24 hour gaming. This has been a big bonanza to the industry and boosted last years revenues by an additional \$100 million, to \$3.8 billion. However, bottom line results improved even more dramatically. We estimate that as much as 65¢ of each incremental dollar generated from around-the-clock gaming flows down to pretax income, as the additional staffing requirements are minimal (about 1500 new jobs). The inauguration of air service into the city started off slowly in May of 1988 with several daily round trips from Pittsburgh, Baltimore, Washington and La Guardia. The Pittsburgh route is strategic because it is USAir's hub, giving Atlantic City access to 180 cities in 30 states. Now USAir, Piedmont and a host of other airlines are bringing 4 million passengers a year from all over the U.S., compared to only 378,000 passenger arrivals in 1986.



Air service has enabled the casinos to market beyond the customer base of the late 80s, which typically was within a day's drive of the city. Most important, rail and airline service have enabled the casinos to cut back on their expensive bussing programs. The city also looks a lot better now, thanks to projects funded by the Casino Reinvestment Development Authority. This marks a major change in direction, because in the first eleven years of the city's gaming, almost all of the money invested in Atlantic City went into its thirteen casino hotels.

At this point in our travels we are low on fuel and our crystal ball is getting a little cloudy, so it's back to May, 1988. Atlantic City currently represents less than 40% of the \$6.4 billion U.S. casino gaming market. Let's take a look at the action out West.

### Nevada Gaming

Nevada is in the midst of a gaming boom. In 1987 the state generated a \$3.9 billion gross win, up 12.7% over the previous year. Approximately 69% of total state revenues and 62% of profits are generated from Clark County, where Las Vegas is. Other major gaming centers include Reno and Lake Tahoe. Last year, at 155 gaming locations statewide having revenues in excess of \$1 million, net profits (before federal taxes but after state taxes) were a record \$648.3 million, up 49% from the previous year. Nevada taxes its major casinos at a rate of 6% on net gaming win. New Jersey taxes the net win at a rate of 8%. However, in addition N.J. also taxes a casino's net earnings at a 9% corporate rate. Nevada does not have a corporate income tax. On top of New Jersey's heavier taxes, operators also face substantial licensing fees to fund the huge \$58 million budget of its two regulating agencies.

The friendlier Nevada environment has prompted a renewed investment interest. In the last two years a number of major Las Vegas properties have moved into much stronger hands. A new entrepreneurial spirit has hit the town. For example, in the last two years alone all five Summa properties were sold - The Frontier, Silver Slipper, Castaways, Desert Inn and the Sands. Kirk Kerkorian, former owner of the two MGM Grands, now is planning to expand his recently purchased Desert Inn property. Golden Nugget bought the Castaways site for \$60 million, razed the old hotel and is building a 3,054 room hotel with a 90,000 square foot casino on 86 acres at a cost of at least \$565 million. The new Nugget is right next door to Caesars Palace and should be open for business in late December, 1989.

The MGM Grand in Las Vegas and the MGM Grand in Reno now fly Bally flags, at a cost to Bally Manufacturing of \$585 million. In the near future we expect Bally will make a major investment to upgrade its Las Vegas hotel. It recently purchased 23 acres adjacent to the property for \$30 million. The Flamingo, across the street from Caesars Palace, is owned by Hilton (HLT-\$88), and it is planning to add a 750 room tower. This will then give Hilton over 6,600 rooms between its two Las Vegas casino hotels. Circus Circus plans a brand new casino hotel at the southwest end of the "Strip" with about 3,500 rooms at an estimated cost of \$250-300 million. Holiday Casino, across the street from the new Golden Nugget, will build a 2,300 room tower addition for \$150 million. Ramada is currently building a new 400 room casino hotel in Laughlin, about 100 miles south of Las Vegas. Laughlin is the fastest growing gaming market in the U.S. Casino revenues grew 30% last year to \$240 million.



The Japanese are also investing in Las Vegas. The Aladdin on the "Strip" was purchased by Ginji Yasuda for \$54 million, and the property reopened about a year ago after a \$30 million renovation. The Park, in downtown Las Vegas, was purchased by Katsuki Manabe last fall. And the Dunes, on the Strip, was recently purchased for \$157 million by Masao Nangako, a Japanese businessman, but this transaction is conditioned on regulatory approvals. If approved, the Dunes plans 1,200 additional rooms. All told, about 15,000 new rooms are expected to be added to Las Vegas' inventory by 1990. This building reflects Las Vegas' growing popularity as a destination resort. Six out of ten visitors who travel by air came to Las Vegas for a vacation. The average length of stay in 1987 was 4.5 days, and this compares with an average 8 hour stay in Atlantic City. Last year 14.6 million passengers funneled through Las Vegas' McCarran International Airport, a 17.8% increase over 1986. Hotel occupancy rates were 83.3% last year, up from 75.7% in 1981 despite the addition of almost 9,000 rooms during that period. Helping to fill those rooms is a thriving convention business which last year brought in 1.7 million delegates. Las Vegas offers visitors a favorable year-round climate and good value. Hotel rooms rates are much friendlier than Atlantic City. And gamblers can get a better break too. For example, slot machine players in Las Vegas have much better odds with each pull of the lever than do players in Atlantic City. Last year we estimate the average machine hold percentage (what the house wins) in Las Vegas and throughout the state was 7.7% compared to 12.2% in Atlantic City.

CASINO WIN PERCENTAGES BY GAME

	Atlantic City		Nevada	
	1987 Casino Win Percentage Calendar Year	1987 Casino Win \$ Mils. Calendar Year	1987 Casino Win Percentage Fiscal Year 6/30/87	1987 Casino Win \$ Mils. Fiscal Year 6/30/87
<b>TABLE GAMES</b>				
Blackjack	15.7%	\$523.5	17.6%	\$760.2
Craps	15.1%	419.1	17.3%	356.5
Roulette (0)	28.7%	3.6	-	-
Roulette (00)	25.7%	114.9	28.5%	90.2
Big Six	46.2%	25.3	50.3%	9.9
Baccarat	15.6%	83.1	23.2%	147.0
Other	-	-	-	300.8
Total Table Games	16.3%	\$1,169.5	18.6%	\$1,664.6
<b>SLOT MACHINES</b>				
5 cent	15.0%	\$45.9	13.5%E	\$261.2
25 cent	13.9%	569.8	8.5%E	930.7
50 cent	12.2%	84.8	-	-
\$1.00	11.4%	229.7	6.0%E	821.4
Progressives (single)	11.1%	32.4	-	-
Progressives (linked)	12.3%	208.3	-	-
Video Blackjack	9.3%	1.0	-	-
Video Blackjack(linked)	13.6%	0.1	-	-
Video Poker	8.7%	104.2	-	-
Video Poker(progressives)	7.6%	17.9	-	-
Other	9.0%	32.0	10.0%E	118.1
Total Slot Machines	12.2%	\$1,326.1	7.7%E	\$2,131.4

E - Estimated by JMS

Our chart shows that the hold percentages on table games in Nevada are higher than those in Atlantic City. However, this reflects accounting differences and has nothing to do with the statistics of the game. (In Nevada markers or credit play can be redeemed at the gaming tables thereby reducing the overall drop, and thus increasing the overall hold percent.) The odds of table



games are basically the same, and the chart on page 10 lists the most popular games with the statistical house advantage.

TABLE GAMES  
Statistical House Advantage

TABLE GAMES	Percentages	COMMENTS
Blackjack (basis strategy player)	0.50%	also "21"- players favorite card game
(general public player)	1.37%	
Craps "Dice" (line bets)	1.40%	consistently the heaviest action game
(place bets)	4.00%	
(field bets)	5.30%	
(hardway bets)	10.00%	
Roulette (0)	2.63%	European style roulette-not popular here
Roulette (00)	5.26%	
Big Six (Wheel of Fortune)	15.32%	a very profitable game for casinos
Baccarat	1.26%	carnival game-casinos love it
		an intimidating game to the general public but a favorite among high-end players

When examining the above two tables, please note that table hold percentages are much higher than the statistical house advantage percentages. This is because length of play causes a multiplier effect. Because the odds for all games always favor the house, the longer one plays the more one loses. For example, in the game of Blackjack the casino has a statistical advantage of between 1.25% and 1.50% for a typical player. In Atlantic City the average length of play for blackjack is 3½ hours, with a typical player starting his game with chips equalling about 20 times his average bet. A \$5 bettor "buys in" \$100 in chips and plays about 70 games an hour. In one hour total wagers equal \$350 (70 games x \$5 average bet). At an average 1.375% house advantage our typical blackjack player is losing \$4.81 per hour. In 3½ hours of average play he has lost \$16.84 to the casino or 16.8% of his \$100 in chips. When he cashes in, the house would then "hold" 16.8% of his original buy-in.

#### INVESTMENT RECOMMENDATIONS

Because of next year's substantial increase in Atlantic City's gaming capacity and the resulting negative near-term earnings implications, we favor only one pure play in the East, Caesars New Jersey. On the other hand, we think Nevada's gaming prospects are much brighter. In this regard we are recommending Caesars World and Circus Circus two of the premier gaming companies in Nevada.

Caesars New Jersey, Inc. (CJN-\$18), 86.6% owned by its parent, Caesars World, Inc. is the premier casino operator in Atlantic City. Caesars leads the high-end of the gaming market. For fiscal 1988 (July 31) we project CJN will earn \$31.0 million or \$1.90 a share, a 71% improvement over the previous year. We expect Caesars' earnings to grow at an average annual 15% rate for the next several years. At \$18 CJN is selling at 9 times our calendar year 1988 earnings estimate of \$2.00 and a 32% discount to the general market. We consider CJN undervalued, but because of the small float (2.2 million shares) and limited trading activity, caution should be exercised in placing orders. More conservative investors might want to consider Caesars World as a substitute.

We rate Caesars World, Inc. (CAW-\$23) as the premier casino operator in Atlantic City and Las Vegas. It also operates a major casino in Lake Tahoe and four non-casino resort hotels in the Poconos. We think the company is capable